

# Direct Loans

WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

VOLUME IV, NUMBER 1  
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*a better way to borrow*

U.S. DEPARTMENT OF EDUCATION

DIRECT LOAN NEWSLETTER 5TH ANNIVERSARY EDITION

Dear Friends,

It is my pleasure to welcome you to the William D. Ford Federal Direct Loan Program Fifth Anniversary Conference. We come to this conference to share our collective experiences as program participants and to explore ways of delivering student loans in the 21st century. During the conference we will examine new technologies, new methods, and new policies to guide the Direct Loan program into the Year 2000 and beyond.

The theme of the conference, Direct Loans: A Better Way to Borrow, is reflective of the many achievements of the program since it began over four years ago. In this short time, the program has—

- become the largest originator of federal Title IV student loans with originations expected to reach \$11 billion in this current academic year, 1997–98
- achieved a firm 32 percent of the total federal student loan market share
- acquired a loan portfolio balance of over \$23 billion, second only to Sallie Mae
- developed and implemented an almost totally electronic process for student loan delivery
- offered borrowers the choice of four flexible repayment plans with the option to change plans at any time

Our most recent accomplishments include making loan account information available to Direct Loan borrowers on the Direct Loan web site. We are also looking at ways to provide more services to borrowers on the web such as allowing borrowers to change their address or apply for a deferment via the Internet. In February, a new electronic service was implemented to give borrowers the option of repaying their loans via an electronic debit account (EDA). In July borrowers will have the option to use coupons to make loan account payments. Finally, as part of the Higher Education Act Reauthorization the secretary is requesting authority to develop and implement a multi-year promissory note. These are just some of the ways the Direct Loan program is preparing to enter the 21st century.

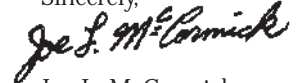
Our priorities during the next year and a half will be to continue to expand services to schools and students, using the latest technology, and to improve the overall administration of direct lending. The Department of Education has and will continue to administer the Direct Loan program in the most cost effective manner; maximizing customer service with quality

performance to ensure that our customers continue to have a *better way to borrow*.

During this Fifth Anniversary Conference you will participate in a number of highly informative sessions on as many pertinent student loan topics that our three day schedule could handle. It is our hope that you will not only learn, but will also share your own experiences, ideas, and insights with us. We hope to gain new knowledge as to what works best and what roads to travel as we move into the 21st century. The Direct Loan program is first and foremost your program, and we highly value your ideas.

Our sincere appreciation to you for attending and participating in this Fifth Anniversary Conference of the William D. Ford Federal Direct Loan Program. Thank you.

Sincerely,



Joe L. McCormick  
Chair  
Direct Loan Task Force



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\*IPA through the Inter-agency Personnel Act

# DIRECT LOAN ORIGATION Highlights



With the second semester well underway at colleges and universities across the country, the William D. Ford Federal Direct Loan Program has now completed processing the bulk of new loans to students and parents for the 1997-98 academic year. The Direct Loan Origination Center's (LOC) service to students and schools has improved substantially. As of February 13, the LOC has originated \$11 billion in new student and parent loans.

The LOC has significantly bolstered its capabilities by implementing a stronger management information system and installing more sophisticated software to track data, hiring additional staff and reorganizing staff assignments to better leverage expertise. Because of these and other changes, the Direct Loan program now delivers roughly as many loans as the largest 15 government guarantee lenders put together.

- In September, October, and November 1997, the LOC processed 25 percent more loans per month than in the same time frame last year;
- In January 1998, peak season for second semester disbursements, the LOC processed approximately one million records in two weeks;
- The LOC processed 50 percent more loans between July and September of academic year 1997-98 than were processed in academic year 1996-97;
- The LOC is now processing over 98 percent of loan origination records within the first 48 hours after receiving them from schools; and
- The LOC notifies the school of its acceptance of a student loan less than 24 hours after receiving notice of the loan being disbursed.

Planned improvements for the future, including further system enhancements for 1998-99 and the incorporation of suggestions from schools for 1999-2000, will help the Direct Loan Program continue to be the centerpiece of the Department's Student Financial Aid system reinvention initiatives.

[HTTP://WWW.ED.GOV/DIRECTLOAN](http://www.ed.gov/directloan)

NEW SERVICES ON THE DIRECT LOAN WEB SITE

## BORROWER ACCOUNT INFORMATION

<http://www.ed.gov/DirectLoan/students.html>

This site enables borrowers to access current loan information. By entering a Social Security Number, birthdate, and zip code, borrowers can see their last loan payment, next payment due date, current balance, and loan status— whether it's in repayment, default or deferment.

## BUDGET CALCULATOR

<http://www.ed.gov/DirectLoan/calc.html>

The budget calculator allows borrowers to estimate financial needs and create a budget for school and living expenses.

## MONTHLY REPAYMENT CALCULATOR

<http://www.ed.gov/DirectLoan/calc.html>

This tool lets the borrower compare the initial monthly payment amounts a borrower would make under the four Direct Loan repayment plans.

## ACCEPTING APPLICATIONS FOR IPAs

The Direct Loan Task Force is seeking your knowledge and experience with the Direct Loan Program. We are recruiting individuals who are very familiar with Direct Loan program operations from the institutional perspective to work for the Task Force in Washington, D. C. as part of the Program Operations Team. Employees in school financial aid departments, business offices, and data processing offices at Direct Loan schools are encouraged to apply under the Interagency Personnel Act. We prefer a one-year commitment but will consider six to nine months.

Responsibilities will include: advising the Task Force about changes and improvements for program administration and implementation, reviewing requirements for origination and servicing of Direct Loans, assisting with school problem resolution, monitoring program administration by function, and assisting with coordination of program activity among the SFA service areas. If interested, please fax your resume to Marge White at (202) 401-3424 or mail it to the Direct Loan Task Force.

# HIGHER EDUCATION FUNDING

## *Details of President Clinton's 1999 Budget Request*

Total student financial aid would be expanded to \$51 billion, a 4 percent increase over the 1998 level. Grants, loans, and work-study opportunities would be provided to 8.8 million students, over a quarter million more than in 1998.

### STUDENT LOAN PROGRAM IMPROVEMENTS

To reduce institutional burden and simplify program delivery, the 1999 budget proposal would—

#### School-Related Proposals

- let schools use a single loan proration formula instead of the multiple computations schools must now calculate. For some programs, proration requirements would be eliminated

- authorize the use of a multi-year promissory note for both FFEL and Direct Loans to help reduce school administrative burden and reduce loan processing time

#### Borrower Related Proposals

- reduce student loan fees for all borrowers from 4 to 3 percent beginning July 1, 1999. (Origination fees for need-based loans would be phased out entirely by 2003.)

- provide a federally-paid interest subsidy benefit for certain student borrowers who perform community service

- give FFEL borrowers the same flexible options of graduated and extended repayment as the Direct Loan program under comparable terms

- reduce the frequency of interest capitalization (subsequently reduce compounding of borrower interest) allowed in the FFEL program

- allow borrowers who consolidate subsidized loans into a FFEL Consolidation Loan to keep interest subsidy benefits associated with the subsidized portions of their Consolidation Loan, as currently provided in Direct Loan Consolidations

### OTHER HIGHLIGHTS

- Pell Grant maximum award would increase by \$100 to \$3,100,

- An 8 percent increase, \$70 million, is proposed for Work-Study and to bolster the "America Reads" initiative under which Work-Study recipients serve as reading tutors,

- A 20 percent increase, \$43.8 million, is proposed for the Title III programs that provide help to Historically Black Colleges and Universities and other institutions that serve high percentages of students from low-income backgrounds,

- More than double the funding is proposed for the Hispanic-Serving Institutions program to \$28 million,

- A proposed Strengthening Tribal Colleges and Universities program would be funded at \$5 million, and

- A \$53 million or 10 percent increase is proposed for the TRIO programs.

### NEW INITIATIVES

- A College-School Partnership initiative to encourage academic achievement and college enrollment among students in high-poverty schools

- A \$15 million Early Awareness Information proposal targeted to middle school students and their families

- A \$67 million Teacher Recruitment and Preparation initiative to help recruit new teachers for high-poverty urban and rural areas

- A new \$30 million Learning Anytime Anywhere Partnership program would support pilot projects using distance learning technology and other innovations

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### CHECK YOUR MAIL FOR THREE IMPORTANT NEW BULLETINS!

Three important Direct Loan Bulletins were mailed in February: DLB 98-03 provides additional guidance on the conversion to the Education Central Automated Processing System (EDCAPS); DLB 98-05 explains new reports for closing out 1995-96 and 1996-97 academic years; and DLB 98-06 provides instructions for ordering Direct Loan promissory notes for the 1998-99 academic year and guidance for the use of 1997-98 (Year 4) and 1998-99 (Year 5) promissory notes. This bulletin also discusses the 1998-99 changes to Direct Loan promissory notes and borrower's rights and responsibilities. To order copies of these bulletins please refer information on back of this Newsletter.

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### NEW EDUCATION TAX BENEFITS IN 1999

Several important higher education tax benefits that will save students and families billions of dollars in fiscal year 1999 were included in the Taxpayer Relief Act of 1997.

- HOPE tax credit—families can receive up to \$1,500 for each of the first two years of postsecondary education.

- Lifetime Learning tax credits—permits deductions, up to \$1,000 in 1999 and up to \$2,000 in 2000 and later years, for students beyond their first two years of study, and for part-time students who need to upgrade their job skills.

- New Individual Retirement Account—allows families to withdraw funds from their IRA accounts without penalty to use for education costs.

- Student Loans interest deduction—allows an "above the line" deduction (the taxpayer does not need to itemize in order to benefit) for interest paid in the first 60 months of repayment on private or Government-backed loans for postsecondary education.

- Employer-provided education benefits—which allows workers to exclude from their taxable income up to \$5,250 of employer-provided education benefits for undergraduate courses, was extended through June 1, 2000.

# HEA REAUTHORIZATION HIGHLIGHTS STUDENT AID PROPOSALS

- Provide authority for the secretary to allow institutions to participate in the Direct Loan program if they are eligible to participate in the FFEL program but their students do not have access to FFEL loans. These schools could enter the Direct Loan program at any time during the academic year and participate in the FFEL and Direct Loan programs simultaneously.

- Provide authority for the secretary to **lower interest rates** on Direct Loans for students who repay their loans on time or repay their loans through automatic debit if these policies would be cost neutral or would enhance collections.

- Eliminate the taxation of forgiveness for income-contingent loans that are forgiven after being in repayment for 25 years.

- Attach a variable interest rate to **FFEL consolidation**; permit FFEL borrowers to consolidate while in school; permit consolidation of consolidated loans; and allow borrowers to retain their interest subsidy when they consolidate.

- **Eliminate accrual of interest on unsubsidized loans** that are in deferment for economic hardship if the borrower is performing community service. This proposal will allow **all** young people with college loans to serve their communities up to three years without accruing additional interest on their loans.

- Set the in-school interest rate at the ED borrowing rate; and compute special allowance rates at the same time and in the same manner as student interest rates.

- Require states to share information about their employees who have defaulted on student loans with the Department.

- Provide authority for the secretary to develop and implement a **multi-year promissory note**.

- Provide authority for the secretary to permit institutions to conduct **exit counseling electronically**.

- Apply lender of last resort provisions to unsubsidized as well as subsidized loans; allow the secretary to make advances directly to lenders for lender of last resort loans, rather than use guaranty agencies as intermediaries.

## LENDER GUARANTY AGENCY PROPOSALS

- **Guaranty agencies will act as third-party servicers**, of federal guarantee loans under performance-based agreements. The Department will pay 100 percent of lender default claims and will recall federal funds held in reserve by guaranty agencies over five years.

- **Reduce the percentage of default collections** that guaranty agencies may retain from 27 to 18.5 percent; replace supplemental/pre-claims assistance payments with performance-based lender payments to guaranty agencies tied to agency success in bringing delinquent loans current.

- Provide increased authority for the secretary to determine through regulation the types of entities that may act as lenders in the FFEL program.

- Provide authority and flexibility to the secretary to use the FAFSA as the loan application for the FFEL program.

For up-to-date, detailed information visit our reauthorization web site at <http://www.ed.gov/offices/OPE/PPI/Reauthor/>

## YEAR 2000 COMPLIANCE FOR HIGHER EDUCATION PROGRAMS (deadline January 1, 1999)

The Year 2000 project team and others in ED have been hard at work in the past few months to prepare all ED systems for Year 2000 compliance by the end of 1998. ED's Year 2000 initiative will prevent date-based miscalculations and avert a massive disruption of systems. Steps being taken include the assessment of all systems and devices and renovation or replacement of ones that are not compliant.

### *The Entire Higher Education Community Must be Prepared*

To process student loans properly and to assure that ED funds are properly distributed to the appropriate customers, the Year 2000 problem must also be resolved at higher education institutions and local and state education agencies as well. To assist with Year 2000 compliance please take advantage of the materials and services we have made available to you:

- Year 2000 Countdown and Compliance Reminder on the Direct Loan web site at <http://www.ed.gov/DirectLoan> with link to ED's Year 2000 web page;

- You can e-mail the OPE Year 2000 representative who can answer questions on the subject at [ope\\_y2k@ed.gov](mailto:ope_y2k@ed.gov)

- ED's Year 2000 web site contains general information and links to other relevant web sites at <http://www.ed.gov/offices/OCIO/year/y2k1.html>

This site includes links to—

- Year 2000 best practices web site that provides guidance in achieving compliance;
- GSA/CIO Council Information Directory provides up-to-date information as well as links to other federal agency Year 2000 web sites;
- ED's Year 2000 Compliance White Paper Report to the Office of Management and Budget (OMB);
- ED's letter to customers/partners on the Year 2000 problems.

## NEW SCHOOLS ELIGIBLE FOR THE DIRECT LOAN PROGRAM

1997-1998 AY

(AS OF FEBRUARY 1998)

### ALABAMA

Huntsville Business Institute  
School of Court Reporting,  
Huntsville

### ARIZONA

American Institute of  
Technology, Phoenix  
Lamson Junior College, Mesa  
Maricopa Beauty College,  
Avondale

### CALIFORNIA

American College of Health  
Professions, Redlands  
Coastal Valley College, Santa  
Maria  
Virginia Sewing Machines &  
School Center, Los Angeles

### COLORADO

Front Range Community  
College, Westminster

### CONNECTICUT

Connecticut Institute of Hair  
Design, East Hartford

### DELAWARE

Dawn Training Institute,  
Wilmington

### FLORIDA

AMI American Motorcycle  
Institute, Daytona Beach  
Educational Services for  
Health Occupations, West  
Palm Beach  
Embry-Riddle Aeronautical  
University, Daytona Beach  
Florida National College,  
Hialeah  
Florida Technical College,  
Orlando  
International Academy of Hair  
Design, Daytona Beach  
La Belle Beauty School,  
Hialeah  
Trinity College of Florida, New  
Port Richey

### GEORGIA

Covenant College, Lookout  
Mountain  
Interactive Learning Systems,  
Inc., Bogart  
Southeastern Beauty School,  
Columbus

### ILLINOIS

Computer Learning Center of  
Chicago, Chicago  
Hairmasters Institute of  
Cosmetology, Bloomington  
M G Institute, Ltd., Chicago  
Pyramid Career Institute,  
Chicago

### INDIANA

Purdue University/Calumet,  
Hammond

### KANSAS

Climate Control Institute,  
Wichita  
Garden City Community  
College, Garden City

### LOUISIANA

Cosmetology Training Center,  
Lafayette  
Lockworks Academie of  
Hairdressing, Baton Rouge

### MARYLAND

Mongomery Beauty School, II  
Sandy Spring

### MICHIGAN

Detroit College of Law at  
MSU, East Lansing  
Travel Education Institute,  
Southfield  
St. Clair County Community  
College, Port Huron  
Lewis College of Business,  
Detroit

### MISSISSIPPI

House of Heavilin of Blue  
Springs, Inc., Grand View  
Kemper Military School and  
College, Booneville

### NORTH CAROLINA

Cecil's Junior College of  
Business, Asheville  
Swinson's School of Cosmetic  
Art, Goldsboro  
Wingate University, Wingate

### NEW JERSEY

General Technical Institute,  
Inc., Linden  
Omega Institute, Cinnaminson  
Worldwide Educational  
Services, Jersey City

### NEVADA

Carson City Beauty Academy,  
Carson City

### NEW YORK

Caliber Training Institute, NY  
Cornell University Medical  
College, NY  
Long Island Business Institute,  
Commack  
Mandle School, NY  
Neighborhood Playhouse, NY  
The Madison School, NY  
Wilfred Academy of Hair and  
Beauty, Hauppauge

### OHIO

Marietta College, Marietta  
Ohio College of Massotherapy,  
Akron  
Ohio Valley Business College,  
East Liverpool  
Scott College of Cosmetology,  
Steubenville

### OKLAHOMA

Poteau Beauty College, Poteau  
School of Hair Design, Idabel

### OREGON

Tara Lara Academy of K-9 Hair  
Design, Portland

### PENNSYLVANIA

Academy of Medical Arts and  
Business, Harrisburg  
Altoona School of Commerce  
and Zeth School, Altoona  
Quaker City Institute of  
Aviation, Philadelphia  
Sawyer Institute, Pittsburgh  
Thompson Institute,  
Harrisburg

### PUERTO RICO

Escuela de Belleza Irma  
Valentin, Manati  
Instituto Irma Valentin-  
Utuaado, Utuaado

### SOUTH CAROLINA

Clemson University, Clemson  
Piedmont College of Hair  
Design, Spartanburg

### TEXAS

American Academy of  
Acupuncture & Oriental  
Medicine, Houston  
Arlington Medical Institute,  
Arlington  
Conlee College of Cosmetology,  
Kerrville  
International Business College,  
El Paso  
National Beauty College, Gar-  
land  
Star College of Cosmetology  
#2, Tyler  
Success Institute of Business,  
Houston  
The Academy of Health Care  
Professionals, Houston

### VIRGINIA

ATI Career Institute, Falls  
Church

### WEST VIRGINIA

Scott College of Cosmetology,  
Wheeling  
Webster College, Fairmont

## QUICK START PROGRAM

The Quick Start Program is designed to offer flexibility to schools considering the Direct Loan Program. It invites institutions that have met specific selection criteria to participate in the program on a trial basis, and provides a streamlined application and approval process. The Quick Start Program allows an institution that has demonstrated a high level of success in financial aid operation an opportunity to experience firsthand the numerous advantages the Direct Loan Program offers to both institutions and students. These institutions have the opportunity to make Direct Loans to a limited population (students studying abroad, graduate students, students receiving emergency institutional loans) and/or to incorporate the Direct Loan Program totally into their financial aid operation.

If you are interested in the Quick Start Program and would like more information, please contact the following members of the Direct Loan Outreach Team via e-mail: Lee Hardwick at [Lee\\_Hardwick@ed.gov](mailto:Lee_Hardwick@ed.gov) or Sarah Utz at [Sarah\\_Utz@ed.gov](mailto:Sarah_Utz@ed.gov)

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## SCHEDULE OF STUDENT FINANCIAL ASSISTANCE PROGRAMS TRAINING EVENTS

February–November 1998

### NSLDS HANDS-ON TRAINING

Late Spring 1998

### ELECTRONIC ACCESS CONFERENCES

November 17-19, 1998, Kansas City, MO

December 1-3, 1998, Washington, DC

December 15-17, 1998, San Diego, CA

### "THE ELECTRONIC AID OFFICE" (HANDS-ON TRAINING ON EDE, NSLDS, AND OTHER ED ELECTRONIC INITIATIVES)

February - September 1998

### EDE APPLICATION PROCESSING (HANDS-ON TRAINING)

April - June 1998

### DIRECT LOAN TRAINING FOR YEAR 5 AND CURRENT SCHOOLS (HANDS-ON AND POLICY INFORMATION)

April - June 1998

### PRECERTIFICATION TRAINING FOR NEW TITLE IV SCHOOLS

May 4-8, 1998, San Diego, CA

May 18-22, 1998, Washington, DC

June 15-19, 1998, Minneapolis/St. Paul, MN

August 17-21, 1998, New York, NY

September 14-18, 1998, Dallas, TX

### NATIONAL CONFERENCE FOR TITLE IV QUALITY ASSURANCE PROGRAM

June 25-26, 1998, New Orleans, LA

### QUALITY ASSURANCE TRAINING WORKSHOPS FOR NEW SCHOOLS

Late Fall/Early Winter 1998

## 1998-99 DIRECT LOAN PUBLICATIONS

*All About Direct Loans: June 1997*

*A Better Way to Borrow: June 1997*

*PLUS Loan Basics: June 1997*

*Direct Loan Exit and Entrance Counseling Materials: July 1997*

*A Guide to Consolidating Direct Loans: Spring 1998*

*Direct Loan School Guide: July 1998*

*Direct Loan Training Guide: Early Spring 1998*

*Direct Loan Repayment Book: July 1998*

To order, contact: U.S. Department of Education

Loan Origination Center

P.O. Box 5692

Montgomery, AL 36103-5692

Phone: 1-800-848-0978

Fax: 1-800-557-7396

## OTHER 1998-99 PUBLICATIONS

*Compilation of Student Financial Aid Regulations through 12-31-1997:*

*May 1998*

*The Blue Book—Accounting Recordkeeping & Reporting by Postsecondary*

*Institutions: October 1998*

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U.S. Department of Education

Direct Loan Task Force

Washington, DC 20202-5162

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